



METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Administration Committee

DATE: May 2, 2007

FR: Deputy Executive Director, Operations

W.I.: 1152

RE: Draft: Proposed MTC Budget – FY 2007-08

Attached is the Draft MTC agency budget for the 2007-08 fiscal year. The draft \$94 million operating budget, as proposed, projects a slight operating deficit. In addition, the draft budget includes \$14 million dollars in capital projects, of which \$365,000 would come from reserves. Both of these numbers will be further refined as staff works on the final budget recommendations and changes.

Highlights of the revenue and expenditure assumptions built into the budget are described below.

Revenue:

Net MTC operating revenue will increase by 20% compared to the 2007 budget. A summary is as follows:

<u>Revenue (in millions)</u>	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Federal Planning	\$ 11.2	\$ 14.4	(22%)
TDA	10.6	10.3	3%
Regional Planning	4.7	8.9	(47%)
Other Revenue	1.7	1.4	21%
Transfers	<u>36.5</u>	<u>24.4</u>	50%
Operating Revenue	\$ 64.7	\$ 59.4	9%
Less Passthrough Costs	(\$ 7.5)	(\$ 11.2)	(33%)
Project Revenue *	<u>\$ 36.6</u>	<u>\$ 30.1</u>	22%
Net Operating Revenue	<u>\$ 93.8</u>	<u>\$ 78.3</u>	20%

* Excludes prior year, carryover revenue of \$15.1 million

The increase in net operating revenue reflects continuing regional economic strength in terms of increasing sales tax revenue. TDA revenue (Sales Tax) is expected to increase for the fifth straight year and is projected to be up 19% from the low point in 2003.

On the other hand, federal resources are expected to be lower than in the previous year. Federal planning revenue will decrease compared to the prior year budget for two reasons: First, since the passage of SAFETEA, there have been a number of adjustments to reflect increases in planning funds to regional agencies, catching up to the statutorily mandated levels. The FY 2007 budget included a

larger augmentation amount for prior years compared to what is expected for FY 2008. Second, a lower percentage of obligation authority—the amount the federal government can actually pay out in any given year, compared to what is actually authorized-- is imposed for the coming year.

Regional planning revenue decreased due to STP Exchange funds provided in fiscal 2007 for a suicide barrier for Golden Gate. We anticipate an increase in this line item with an augmentation of 3% STP funds, once it is officially provided by Caltrans.

Transfers are up, largely due to an \$8.4 million increase State Transit Assistance (STA) funds that underwrite MTC administered transit coordination programs, reflecting a ramp up of activities in those areas. There is also a \$3.3 million increase in BATA transfers for reimbursement of RM2 expenses. Project revenue will increase due mainly to an increase in CMAQ funds of \$4.8 million for the Freeway Performance Initiative and the Spare the Air programs.

Pass-through costs do not include any prior year carryover of FTA 5303 funds, nor does it include the augmented 3% planning funds in the fiscal 2008 year, again pending official notice by Caltrans.

Expenditures:

Current year operating expenses will increase by \$16.1 million (21%). The expenditures are summarized as follows:

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Staff			
MTC	122	122	-
BATA	34	32	6%
SAFE	<u>6</u>	<u>6</u>	-
Total Staff	162	160	1%
Expense (in millions)			
Salary/Benefit	\$ 18.7	\$ 16.9	11%
Contractual	70.6	56.3	25%
Other Operating Costs	3.6	3.6	0%
Other Post Employment Benefits (OPEB)	<u>1.1</u>	<u>1.1</u>	0%
Total Operating Expense	<u>\$ 94.0</u>	<u>\$ 77.9</u>	21%

Salary and benefit costs will increase by 11% due mainly to the following:

- four project based/temporary positions have been added bringing with them specific project-based revenues with no impact on MTC general planning revenues;
- salary adjustments are projected at 4%, consistent with MOU provisions;
- medical costs are projected to increase by 10%, reflecting continued cost pressures.

Contractual costs are budgeted to increase by 25%, however, most of these expanded contractual costs are funded with project specific funds, and therefore do not reflect significant strains on MTC's general planning revenues.

The primary changes to contract services from Fiscal Year 07 to Fiscal Year 08 include several major MTC project initiatives outlined in the following table:

<u>Program</u>	<u>Budget Change</u>
TransLink Operations	\$3.1 million
Freeway Performance Initiative	5.3 million
Clean Air in Motion Program	(6.4) million
Regional Transit Coordination Project	10.3 million
Arterial Operations Coordination	2.3 million

Finally, we note that new accounting standards require MTC to budget, record and expense the actuarially determined value of future, post retirement employee benefits. To address this requirement, the budget includes funding the full amount of the annual OPEB cost attributable to MTC (\$1.1 million). We will then recommend joining an established trust, such as the CalPERS plan, to administer the program. A trust reserve will be used to hold funds as we begin to build the reserve necessary to meet over \$30 million dollars in under funded post retirement costs.

The current status of the reserve, including estimated actuals for FY 07 and budgeted amounts for FY 08, is included in the table below.

<u>Description</u>	<u>Actual FY 2006</u>	<u>Estimated FY 2007</u>	<u>Projected FY 2008</u>
Benefits Reserve	\$ 6,555,497	\$ 7,414,560	\$ 7,814,560
Building Reserve	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Liability Reserve	\$ 468,500	\$ 1,200,000	\$ 1,200,000
Fixed Asset	\$ 500,000	\$ 500,000	\$ 500,000
Other Restricted	\$ 6,661,975	\$ 3,951,159	\$ 3,551,159
Unrestricted	<u>\$ 6,562,593</u>	<u>\$ 8,066,516</u>	<u>\$ 7,254,585</u>
Total Reserves	<u>\$ 21,748,565</u>	<u>\$ 22,132,235</u>	<u>\$ 21,320,304</u>

The projected unrestricted balance for fiscal year 2008 reflects the current budget deficit of \$811,931, including \$375,000 in capital projects. The projected “unrestricted” reserve represents a 7.7% of operating expenditures. The adopted goal is an unrestricted reserve equal to six months expenditures. We will continue to evaluate the budget for opportunities to improve our reserve level.

We will continue to develop this budget and return to this committee in June with the final proposed FY 2007-08 agency budget for adoption.

Ann Flemer

SH/BM/cj